

Washington State Auditor's Office
Audit Report

King Conservation District
King County

Audit Period
January 1, 1994 through December 31, 1999

Report No. 61447

Issue Date
July 14, 2000



Washington _____
State Auditor

Brian Sonntag

Audit Summary

King Conservation District King County January 1, 1994 through December 31, 1999

ABOUT THE AUDIT

This report contains the results of our audit of the King Conservation District for the period January 1, 1994, through December 31, 1999.

We performed audit procedures to determine whether the District complied with state laws and regulations, its own policies and procedures, and federal grant requirements. Our work focused on specific areas that have potential for abuse and misuse of public resources.

RESULTS

Prior to 1999, the District's records were not sufficient to enable us to form an opinion on whether the financial statements were accurate and complete. In most areas, the District complied with state laws and regulations and its own policies and procedures. However, we identified three conditions significant enough to report as findings:

- The District did not have proper documentation to support expenditures of its special assessment revenues. Lack of program accountability and proper documentation exposes the District to the risk of losing the assessment. We would like to note, however, that the District made improvements during 1999.
- The District's poor financial records, inadequate financial and program accountability and significant employee turnover have contributed to doubt about its ability to continue as a viable municipal government. The District has made improvements in these areas during 1999 and we were able to audit the 1999 financial statements and found them to be complete and accurate.
- The District lacked proper documentation for expenditures made through the Urban Resources Partnership federal program. This condition exposes the District to the risk that it may have to repay questioned costs and jeopardizes future federal funding.

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Description of the District

King Conservation District King County January 1, 1994 through December 31, 1999

ABOUT THE DISTRICT

The King Conservation District was established in 1949 and is supported primarily by state and local grants and agreements and a special property tax assessment of \$5 per parcel imposed by the Metropolitan King County Council on all parcels in King County. The District provides conservation education and natural resources technical assistance to the general public within King County. A five-member Board of Supervisors consisting of two appointed and three elected Members administers the District. The Washington State Conservation Commission appoints two Board Members, and the landowners within the District boundaries elect the other three Members. Each Board Member serves a three-year term. The Board of Supervisors appoints a District Manager to direct the day-to-day operations of the District. The District's operating budget for 2000 is \$1,162,726 and currently has six full-time employees.

ELECTED OFFICIALS

These officials were elected by District landowners and served during the audit period:

Board of Supervisors:	Richard Van Dam
	Patricia Brewington
	Chris Tiffany
	Sandra Carr
	Allan Thomas
	Susan Schmoll
	Brooke Barrett
	Lynn Sullivan
	Bill Niccolls
	Kim Marousek
	Max Prinsen

APPOINTED OFFICIALS

These officials were appointed by the Washington State Conservation Commission and served during the audit period:

Board of Supervisors:	Stephen Lamphear
	Ralph Backstrom
	Susan Hilpert
	Scott Wallace
	Nancy Hansen

ADDRESS

District

935 Powell Avenue Southwest
Renton, WA 98055
(206) 764-3410

Audit Areas Examined

King Conservation District King County January 1, 1994 through December 31, 1999

In keeping with general auditing practices, we do not examine every portion of the King Conservation District's financial activities during each audit. The areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. Other areas are audited on a rotating basis over the course of several years. The following areas of the District were examined during this audit period:

LEGAL COMPLIANCE

We audited the following areas for compliance with certain applicable state and local laws and regulations:

- Open Public Meetings Act
- Authorization and validity of expenditures
- Conflicts of interest
- Program accountability
- Cash and investments
- Safeguarding of assets
- Public records management
- Insurance coverage

INTERNAL CONTROL

We evaluated the following areas of the District's internal control structure:

- Cash receipts
- Expenditures

FINANCIAL AREAS

In addition to the financial-related work listed in other categories, we audited the following areas:

- The District's ability to continue as a municipal entity
- Financial statement presentation

FEDERAL PROGRAMS

We evaluated internal controls and tested compliance with the following federal requirements for the District's major federal program, which is listed in the Federal Summary section of this report:

- Spending grant funds for allowable purposes
- Financial reporting
- Cash management
- Matching requirements
- Eligibility of program participants
- Monitoring awards made to subrecipients

Audit Overview

King Conservation District King County January 1, 1994 through December 31, 1999

AUDIT HISTORY

Typically we audit the King Conservation District every three years. However, this audit spans a six-year period due to the nature and timing of our visit and the federal requirement to audit the Urban Resources Partnership program. The last two audits had no findings.

During 1999, District management took steps to make improvements and correct concerns noted in our report. We believe this reflects the District's current commitment to improve its financial system with sufficient internal controls to ensure accountability.

CONCLUSIONS

Because the District could not provide us with all records needed to audit the financial statements for 1994-98, our primary focus was on determining whether public funds had been misappropriated or misused. Due to the lack of accounting records and turnover in key personnel, our audit was limited to selected bank records, available District records, and general inquiries of remaining District personnel. As noted earlier, these limited procedures do not provide us a reasonable basis for an opinion on financial statement accuracy for 1994-98.

In most areas, the District complied with state laws and regulations and its own policies. However, we identified conditions significant enough to report as findings. These conditions are discussed in the finding section of this report.

During the audit, we spent a significant amount of time looking at cash receipts, disbursements and special assessment revenues.

We appreciate the District's prompt attention to resolving prior audit issues and its commitment to ensure compliance with conditions reported this audit.

We thank District officials and personnel for their assistance and cooperation during the audit.

Schedule of Audit Findings

King Conservation District King County January 1, 1994 through December 31, 1999

1. The District did not have adequate financial and administrative controls over the Special Assessment revenues it received from King County.

Description of Condition

King Conservation District did not initially establish effective or adequate financial and administrative controls that were needed to comply with its special assessment agreement with King County. As a result, at December 31, 1999, the District did not distribute most of these funds to the participating cities, could not demonstrate that it performed through contracted services approximately \$100,560 of the 1994-97 assessment from the participating cities within the assessment boundaries, and spent approximately \$262,000 more than what was available during December 1998. This put the District in a deficit position, which must be repaid using the District's portion of future assessment money. This affects the District's ability to perform at the expected level of service outlined in the agreement.

In 1994, King County passed an ordinance authorizing a special assessment for resource conservation of \$1.25 per parcel on all non-exempt properties within the District.

The ordinance required the District to maintain adequate records of accountability over these funds. The agreement is in effect until December 31, 2003.

Subsequent to the original ordinance, in November 1997, King County authorized the assessment to be increased to \$5 per parcel, imposed annually from 1998 through 2000. The ordinance distributes \$1 to the District for purposes of establishing a County-approved work program to provide technical assistance and education in conserving natural resources and improving water quality to individuals, businesses and public agencies in King County. The remaining funds are distributed to participant cities and watershed forums. The District retains 1 percent for administrative costs.

Through these ordinances, the District agreed to maintain the necessary accounts and records, including personnel, property financial and programmatic records to ensure proper accounting for all funds spent from the District's assessment. However, the District was inadequately prepared to take on this responsibility.

The following conditions contributed to the lack of accountability, inadequate monitoring, and poor record keeping:

- The special assessment funds were combined in one bank account with other District funds. Money in the account was used without consideration of the source. We believe such a system provided opportunities where assessment funds were used to pay non-assessment expenses, which lead to the deficit operating balance at the end of 1998.
- The District's accounting system did not account for special assessment revenues and expenditures. Financial and program records did not contain sufficient information to show direct and indirect costs, and contracted services provided per the county agreement. During 1998, the previous District accountant reconciled the 1994-97 and 1998 assessment revenues received to the payments to participants and identified over

\$234,000 of assessment dollars that were received but not used for their intended purpose. The money was used for general District operations.

- Turnover in key positions such as the District Manager and the Accountant affected the District's ability to maintain the level of program accountability required per the ordinance. The District continues to experience turnover that may impair its ability to perform the program requirements.
- The former District Board of Supervisors and the former District Manager did not comprehend and fully understand the extent of the responsibilities placed on them regarding the accountability over special assessments. There was no accounting system or personnel in place that could have fulfilled the requirements set forth in the County Ordinance.

Cause of Condition

The District was not prepared to manage the assessment revenues and related program requirements. The lack of adequate knowledge and training by former District finance staff created the conditions of poor record keeping and inadequate accountability. Former District staff was ineffective in establishing adequate financial and administrative controls that were needed to comply with its agreement with King County.

Furthermore, the former District Board of Supervisors and the former District Manager failed to meet their oversight responsibilities to provide necessary direction to the staff and hold staff accountable for meeting fiduciary program requirements.

Effect of Condition

The District's failure to establish an effective financial and administrative system for managing the assessment program and failure to maintain adequate financial and program records threatens the District's ability to fulfill its legal mandate under this program. Furthermore, the remaining uncertainty caused by the District's reduction in staff and expenditures may affect its future ability to complete or perform the required level of service.

Additionally, because the District did not distribute the participant cities' and watershed forums' assessment funds during 1998 and 1999, the District received interest income exceeding \$180,000 from the investments for which no accounting has yet been done.

Recommendations

We recommend the District Board of Supervisors take the necessary actions and provide the training and resources needed to maintain an effective accounting system that ensures the District meets its obligations under the agreement with King County.

We recommend the District continue efforts to pay the amounts due to the participant cities and watershed forums from the 1994-97 assessment. We further recommend the District continue efforts to distribute the 1998-99 assessment revenues and resolve the issue of interest due to participating cities and watershed forums.

We also recommend the District work with King County to develop a complete and accurate accounting of all the special assessment funds available and spent as originally contemplated in 1994 agreement.

District's Response

The District has reconciled and reflected in the financial records the balances due to each of the member cities and watershed forums covered by the assessment agreement. As of December 1999, the District had enough cash on hand to completely liquidate the remaining liabilities to the cities and forums, and had an operating surplus remaining that is considered adequate for current operations.

Project files and accounts are now maintained to account for any District work that is performed in lieu of a cash distribution to pay assessment funds to a jurisdiction.

Because of the problems with the accounting records before 1998, the District did spend some of the assessment funds that should have been allocated to the cities/watersheds assessment liabilities. However, as a result of the reconciliation of these liabilities, each jurisdiction will get the entire amount owed to it under the assessment program that started in 1994. The District was able to make the liabilities to the jurisdictions whole by undergoing budget cuts during 1998, and allocating the savings back to the jurisdiction liabilities.

1998 budget cuts made in the form of reductions in the number of staff did not undermine the District's ability to complete the tasks outlined in its 1998-99 workplan and the District continues to satisfy production goals established in the annual work plan approved by the King County Council.

Though the District notified jurisdictions about the availability of assessment funds, it was not until spring 1999 that an application/award process that complied with the RCW and the KC ordinance criteria was fully implemented. Since implementing the current application/award process, nearly \$3.4 million of the \$3.8 million assessment funds liability (collections through the end of 1999) has been distributed as a result of agreements that were approved and signed.

The District is addressing the issue of allocating interest collected on assessment funds. As assessment funds are now being distributed soon after their collection, it is anticipated that in the future the amount of interest earned on undistributed balances will decrease significantly.

Auditor's Remarks

We appreciate the District's commitment to resolve the issues noted in our finding. Based on the response, the recommendations are being addressed, and we will review these areas again in our next audit.

We wish to thank the District's personnel and management for their cooperation and assistance during the audit.

Applicable Laws and Regulations

The special assessment agreement to King County Ordinance 10981, which established the roles and responsibilities of the District with respect to the authorization and use of the funds required the District to:

II. A. create a work plan showing the detailed intended uses of funds including a budget, broken out by major activities, for the expenditure of all funds. . .

V. A. The district shall maintain accounts and records, including personnel, property, financial and programmatic records and other such records as may be deemed necessary by either party to ensure proper accounting for all fund expended from the district's assessment. All such records shall sufficiently and properly reflect all direct and indirect costs of any nature expended and services provided under this agreement.

Schedule of Audit Findings

King Conservation District King County January 1, 1994 through December 31, 1999

- 2. The District's poor financial records and inadequate financial and program accountability has contributed to a doubt about its ability to continue as a going concern.**

Description of Condition

Because of the incomplete nature of the District's records during the period of January 1, 1994, through December 31, 1998, we were unable to obtain sufficient information and documentation to satisfy ourselves by means of other auditing procedures that the District properly accounted for all its revenues and expenditures. However, we did note that the District made improvements during 1999 and we were able to audit the 1999 financial statements. We found the 1999 financial statements to be complete and accurate.

Cause of Condition

During the period of audit, the District experienced significant turnover in key positions such as the Board of Supervisors, District Accountant, District Manager and technical staff. We believe this turnover contributed greatly to the poor condition of the records, incomplete financial information and inadequate program accountability.

Effect of Condition

The lack of adequate accounting and reporting combined with the degree of staff turnover in key positions made it ineffective to audit all the financial statements of the District. Therefore, we are unable to state that the District's financial statements and its Schedule of Federal Assistance for the period January 1, 1994, through December 31, 1998, are accurate and complete.

Furthermore, the turnover of key employees raises doubt about the District's ability to perform at expected levels of service and seriously threatens the District's future financial condition.

Recommendation

We recommend the District implement an adequate system of staffing and accountability necessary to properly account for the use of public funds.

District's Response

During the period under audit, staff turnover was caused by several factors - personality conflicts, wrong job fit, and the Board's efforts to solve those issues and cut costs. Thus, some turnover in District personnel, while not ideal, actually was undertaken with the idea to ultimately improve District operations. The former District management structure concentrated management functions in one person, the District Manager. As this position required sophisticated financial management skills as well as conservation district management skills, it was difficult to find this skill blend in one person. The new Board reconfigured the management positions so that they are specialized, and promoted/hired employees skilled in those functions to fill those positions and work as a management team. Two of these three positions were filled with employees with a

total of more than 12 years of tenure at the District. In addition, the District hired a Financial Manager with more than 15 years of financial management experience.

As a result of these changes, turnover at the District has now stabilized.

It is important to note that the District has met the requirements of the King County Council approved work plan for the years 1998 and 1999. The District submitted to the Council its workplan for 2000, which the Council approved in summer 1999. The District is currently meeting the production goals established by the District and the Council in the 2000 workplan. The District has submitted its 2001 workplan to the Council for approval during summer 2000.

As a result of cuts in spending during 1998, the District is able to completely liquidate all outstanding liabilities and now has a surplus that is considered adequate to support current operations into 2001. In addition, the District has a stable funding source from Washington State Conservation Commission grants that it expects will continue in the future.

Auditor's Remarks

We appreciate the District's commitment to resolve the issues noted in our finding. Based on the response, the recommendation is being addressed, and we will review this area again in our next audit.

We wish to thank the District's personnel and management for their cooperation and assistance during the audit.

Applicable Laws and Regulations

RCW 43.09.200 states in part:

The accounts shall show the documents kept or required to be kept, necessary to isolate and prove the validity of every transaction . . .

Federal Summary

King Conservation District King County January 1, 1994 through December 31, 1999

The results of our audit of the King Conservation District are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

- We issued a disclaimer of opinion on the District's financial statements for the period January 1, 1994, through December 31, 1998.
- We issued a qualified opinion on the District's financial statements for the period January 1, 1999, through December 31, 1999.
- We noted significant deficiencies in the design or operation of internal control over financial reporting that we consider to be reportable conditions. We consider Findings 1 and 2 and Federal Finding 1 to be material weaknesses.
- We noted instances of noncompliance that may be material to the financial statements of the District.
- We noted significant deficiencies in the design or operation of internal control over major federal programs that we consider to be reportable conditions. We consider Federal Finding 1 to be a material weakness.
- We issued an adverse opinion on the District's compliance with requirements applicable to its major federal program.
- We reported findings which are required to be disclosed under OMB Circular A-133.
- The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.
- The District did not qualify as a low-risk auditee under OMB Circular A-133.
- The following was a major program during the period under audit:

CFDA No.

Program Title

10.664

Urban Resources Partnership Program

Schedule of Federal Audit Findings and Questioned Costs

King Conservation District King County January 1, 1994 through December 31, 1999

1. The District did not have adequate accountability for expenditures through the Urban Resource Partnership federal program.

Description of Condition

The King Conservation District could not provide adequate documentation for expenditures of a federal grant from the Puget Sound Urban Resources Partnership. District staff did not establish adequate financial and administrative controls needed to comply with grant requirements. As a result, we question the entire grant of \$1,756,940.

During 1995-98, the District received grant funds totaling \$1,756,940 from the Partnership, a consortium of seven federal agencies and the Washington State University Cooperative Extension Service of King County. The Partnership worked collaboratively with local and state governments, community organizations, private and non-profit organizations in an effort to protect, improve and rehabilitate critical urban environments.

The District received this grant through a series of cooperative agreements with the U.S. Department of Agriculture.

Through these agreements, the District agreed to be the grant recipient and to distribute and account for the grant funds to subrecipients on behalf of the Partnership. However, the District was not prepared to manage the program and did not establish adequate financial and administrative controls that were needed to comply with the grant agreement.

The following conditions contributed to the lack of financial and administrative accountability, inadequate monitoring, and poor record keeping leading to the subsequent questioned costs:

- The Partnership program funds were combined in one bank account with other District funds. Money in the account was used without consideration of the source. During the period of grant activity, the District was unable to provide an accurate accounting of the Partnership program, resulting in numerous requests for advances that were used to pay the reimbursement requests when they came in. We believe such a system provided opportunities where Partnership funds may have been used to pay non-program expenses.
- Although the District was the recipient of the grant, Partnership program decisions and actions such as grant awards to subrecipients were made by the federal agencies without the explicit involvement of the District Board of Supervisors. This put the District in a position of being responsible for ensuring compliance with the agreements, without having been directly involved in the awarding of the grants.
- Project files were in such a poor condition that they had to be reconstructed by the Partnership Coordinator during October and November of 1998, after the majority of the projects were completed. The existing files are incomplete and do not provide an adequate accounting of the program expenditures. The District cannot reconcile the

funds received to the amounts spent. Furthermore, the District charged the cost of reconstructing the records to the special assessments program, which is unallowable.

- The Partnership Coordinator reported solely to the Consortium, even though the Coordinator was a District employee. This employee did not report to anyone at the District and worked from an office away from the District office and was not supervised on a daily basis by anyone from the District. The Partnership Coordinator was responsible for monitoring the projects and authorizing payments, but there was no evidence of such activities in the project files.
- Members of the District Board of Supervisors failed to comprehend and understand the responsibilities placed on them regarding the fiscal accountability of the program. The Board was kept informed of the program by the District Manager's summary briefings during regular Board meetings, but did not receive actual reports on program expenditures.
- The District did not monitor subrecipients as required by the federal Single Audit Act. Our review of the subrecipient files identified a large number of files that lacked adequate supporting documentation of the costs reimbursed, or project monitoring performed.
- The Partnership Coordinator and the District's accounting system failed to adequately track project expenditures so that the District could ask for and receive reimbursements from the federal government on a timely basis.

Cause of Condition

The District was not prepared to manage the program. The lack of adequate knowledge and training by the Former District Board of Supervisors, the former District Manager, and the former District finance staff regarding federal program accountability resulted in poor record keeping and inadequate accountability.

Furthermore, the District's former Board of Supervisors and the former District Manager failed to meet their oversight responsibilities of providing necessary direction to the staff and holding staff accountable for program requirements.

This was exacerbated by the lack of federal guidance and assistance regarding fiscal program accountability by the participating federal agencies of the partnership.

Effect of Condition and Questioned Costs

The lack of program accountability has created uncertainty about the use of program funds and jeopardizes the District's eligibility for future federal funding. The District no longer administers the program. Total questioned costs are \$1,756,940.

Recommendations

We recommend the District resolve the program compliance deficiencies and the questioned costs with the appropriate federal agencies.

District's Response

The District is confident that its liability will be minimal and any costs at issue will be found to be the responsibility of the Partnership and/or project subgrantees. To the best of the District's knowledge, all Urban Resources Partnership (URP) grant funds received by the District were dispersed to awarded projects and project subgrantees. These funds were not used to enrich the District.

As stated in the Description of Condition, the District no longer administers this grant. It is now administered by King County. The URP program did not allocate a budget for the District to establish administrative controls, so the District utilized its own available resources to manage the program to the best of its ability.

Since early 1999, an accounting system that tracks revenues and expenses by grant/project has been in use, minimizing the possibility of revenues being misdirected and facilitating reconciliation of grant/project funds. For current District projects and grants, complete project files are maintained.

Auditor's Remarks

We appreciate the District's commitment to resolve the issues noted in our finding. Based on their response, the recommendation is being addressed, and we will review this area again in our next audit.

We wish to thank the District's personnel and management for their cooperation and assistance during the audit.

Applicable Laws and Regulations

Revised Circular A-87, Costs Principles for State, Local and Indian Tribal Governments, Attachment A, Paragraph C. 1. J., provides guidance for auditors and auditees regarding allowability of costs. It states in part that to be allowable under federal awards, costs must meet the following general criteria:

- j. Be adequately documented.

Federal Office of Management and Budget (OMB) A-133 Circular, Subpart A, Section .105, Questioned Costs, provides guidance to auditors and auditees regarding questioned costs. It states in part:

Questioned costs means a cost that is questioned by the auditor because of an audit finding:

- (1) Which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of Federal funds, including funds used to match Federal funds;
- (2) Where the costs, at the time of the audit, are not supported by adequate documentation; or
- (3) Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

OMB Circular A-102 Common Rule .37 and .40(a) contain the requirements for subrecipient monitoring. They require a pass-through entity to monitor the subrecipient's activities to provide reasonable assurance of compliance with federal requirements.

Independent Auditor's Report on Compliance and Internal Control over Financial Reporting in Accordance with Government Auditing Standards

King Conservation District King County January 1, 1994 through December 31, 1999

Board of Supervisors
King Conservation District
Reton, Washington

We attempted to audit the financial statements for the years ended December 31, 1994-98, and we have audited the financial statements of the King Conservation District, King County, Washington, as of and for the year ended December 31, 1999, and have issued our report thereon dated April 28, 2000.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatements, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the District complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the District's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the District and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are (1) failures to follow requirements or violations of prohibitions contained in statutes, regulations, contracts or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements or (2) considerable failure to comply with the laws and the *Constitution of the State of Washington*, the District's ordinances and orders, and the requirements of the State Auditor's Office. The results of our tests of compliance disclosed instances of noncompliance that may materially affect the financial statements. The material instances of noncompliance noted during our audit are disclosed in the accompanying Schedule of Audit Findings as Findings 1 and 2 and Schedule of Federal Audit Findings and Questioned Costs as Finding 1.

Except for the material instances of noncompliance disclosed in the Schedule of Audit Findings and Schedule of Federal Audit Findings and Questioned Costs accompanying this report, the results of our tests of compliance indicate that, with respect to the items tested, the District complied, in all material respects, with the provisions referred to in the second paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that the District had not complied, in all material respects, with those provisions.

In addition, we noted certain matters involving noncompliance not significant enough to report as findings that we have reported to management of the District in a separate letter dated April 28, 2000.

INTERNAL CONTROL OVER FINANCIAL REPORTING

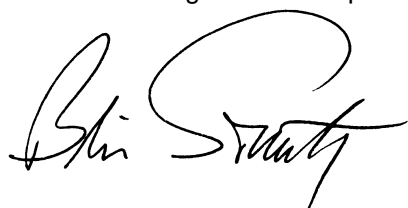
In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.

However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Audit Findings as Findings 1 and 2 and Federal Finding 1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider Findings 1 and 2 and Federal Finding 1 to be material weaknesses.

We also noted other matters involving the internal control over financial reporting that we have reported to the management of the District in a separate letter dated April 28, 2000.

This report is intended for the information of management, the Board of Supervisors, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag", is written over a horizontal line.

BRIAN SONNTAG, CGFM
STATE AUDITOR

April 28, 2000

Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

**King Conservation District
King County
January 1, 1994 through December 31, 1999**

Board of Supervisors
King Conservation District
Reton, Washington

COMPLIANCE

We have audited the compliance of the King Conservation District, King County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the years ended December 31, 1994-99. The District's major federal program is identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit in compliance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

As described in Finding 1 in the accompanying Schedule of Federal Audit Findings and Questioned Costs, the District did not comply with requirements regarding financial reporting, cash management, matching and subrecipient monitoring that are applicable to the Urban Resources Partnership Program. Compliance with such requirements is necessary, in our opinion, for the District to comply with requirements applicable to that program.

In our opinion, as described in the preceding paragraphs, the District did not comply, in all material respects, with the requirements referred to above that are applicable to its major federal program for the years ended December 31, 1994-99.

INTERNAL CONTROL OVER COMPLIANCE

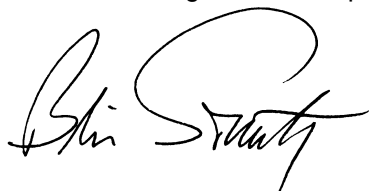
The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over

compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with applicable laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, of the reportable conditions described above, we consider Finding 1 to be a material weakness.

This report is intended for the information of management, the Board of Supervisors, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag", is positioned above the printed name and title.

BRIAN SONNTAG, CGFM
STATE AUDITOR

April 28, 2000

Independent Auditor's Report on Financial Statements

King Conservation District King County January 1, 1994 through December 31, 1999

Board of Supervisors
King Conservation District
Reton, Washington

We attempted to audit the financial statements for the years ended December 31, 1994-98, and have audited the accompanying financial statements of the King Conservation District, King County, Washington, for the year ended December 31, 1999. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District's lack of financial and program accountability combined with the employee turnover in key positions did not permit us to effectively audit the financial statements for the period January 1, 1994, through December 31, 1998, and furthermore raises doubt about the District's ability to continue as a going concern.

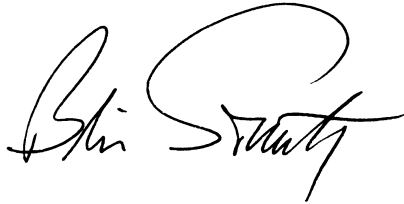
Since the District was not able to sufficiently explain the financial transactions in the period of January 1, 1994, through December 31, 1998, and we were unable to apply other auditing procedures to satisfy ourselves as to the amounts recorded, the scope of our work was not sufficient to express, and we do not express, an opinion on the financial statements or supporting schedules of financial assistance for the period January 1, 1994, through December 31, 1998.

As described in Note 1 to the financial statements, the District prepares its financial statements on the cash basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the recognized revenues and expenditures of the funds of the King Conservation District for the year ended December 31, 1999, on the cash basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2000, on our consideration of the District's internal control structure over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedule of State and Local Financial Assistance is also presented for purposes of additional analysis. These schedules are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Brian Sonntag", with a large, stylized loop at the end.

BRIAN SONNTAG, CGFM
STATE AUDITOR

April 28, 2000

Financial Statements

**King Conservation District
King County
January 1, 1994 through December 31, 1999**

FINANCIAL STATEMENTS

Revenues and Expenses Arising from Transactions – 1999
Detail of Revenues and Other Sources – 1999
Detail of Expenses and Other Uses – 1999
Notes to Financial Statements – 1999

ADDITIONAL INFORMATION

Schedule of State and Local Financial Assistance – 1999
Schedule of Expenditures of Federal Awards – 1999